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**Analyst**  
**Debashish Sutradhar**  
debashish.sutradhar@lbsbd.com

### Company Overview

Acme Laboratories Limited, the flagship company of renowned ACME Group, is a front footed pharmaceutical company, which has been involved in the manufacturing and marketing of Pharmaceutical finished products since 1954. The company mainly engaged in manufacturing human, herbal & ayurvedic products and veterinary products. Over its period of operation, the company has launched more than 700 products in different dosage forms in the market. Moreover, after meeting local demand, it entered into the foreign market in the year 1999. The company is the 9th largest pharmaceutical goods producer of the country, according to 2015 9M IMS report.

In 1999, ACME started launching animal health products and the herbal & ayurvedic products were launched in the year 2004. At present, the company is consistently building upon its portfolio of products, currently producing more than 700 products in different dosage forms encompassing broad therapeutic categories. As on June 30, 2015, it has 494 human products, 37 herbal & ayurvedic products and 170 veterinary products. ACME set up a wholly owned subsidiary called The ACME Specialized Pharmaceutical Limited (ASPL) in 2008 which has been amalgamated with ACME Laboratories in 2013. ASPL is supposed to have Tax Holiday period from 29 September 2011 to 28 September 2016.

Factory of ACME is located at Dhamrai, Dhaka; about 40 Km north-west to Dhaka on 16 acres land. The production plant is divided in five areas- i) Solid Dosages unit; ii) LVP, Liquid & Semisolid unit, iii) Cephalosporin unit iv) General unit and v) Herbal, Nutraceuticals & Ayurvedic unit. The company distributes its products through its own distribution network comprising of 20 depots throughout the country.

**Table-1: IPO Snapshot**

Pricing Method	Book Building
No. of shares offered	50,000,000
Face Value (BDT)	10
Shares Reserved for Eligible Institutional Investors	25,000,000
Shares Reserved for Mutual Funds	5,000,000
Cut-off Price for Institutional Investors and Mutual Funds (BDT)	85.20
Shares Reserved for General Public	77.00
Total Number of Shares after IPO	211,601,700
Funds to be raised from IPO (BDT mn)	4096.00
Year End	June
Sector	Pharmaceuticals & Chemical

Source: IPO Prospectus, LBSL Research

**Table-2: Shareholding Pattern**

Category of Shareholders	No. of Ordinary Shares Held		Percentage of Holding	
	Pre-IPO	Post-IPO	Pre-IPO	Post-IPO
Sponsors	121,970,600	121,970,600	75.5%	57.6%
Institutional	38,476,100	63,476,100	23.8%	30.0%
Mutual fund	-	5,000,000	-	2.4%
Individual	1,155,000	16,155,000	0.7%	7.6%
Non Resident Bangladeshis (NRBs)	-	5,000,000	-	2.4%

Source: IPO Prospectus

### IPO Details

ACME Laboratories is issuing 50,000,000 common shares through their IPO offering. The cut-off price for eligible institutional investors and mutual funds has been set at BDT 85.20 through book-building process. The price for general public investors has been set at a discounted BDT 77.00. Through this offering, ACME has raised BDT 4096.00 million.

With the IPO proceeds ACME wishes to initiate construction of three facilities: a steroid and hormone project focused mainly on contraceptives with a budget of BDT 1358.0 million, an oncology project producing cancer medication and chemotherapeutic agents with a budget of BDT 1141.0 million and an Ayurvedic, Modern Herbal and Nutraceuticals project with a budget of BDT 1745.5 million. Total cost of these projects has been estimated at BDT 4244.5 million.

### Lock-In Period

All the shares held by Directors, Sponsors and other shareholders shall be subject to a lock-in period of three years from the issue date of prospectus. Also, 25% of the shares allocated to eligible institutional investors is locked in for three months and another 25% for six months from the issue date of prospectus. The prospectus was issued on 16th March, 2016. So, the lock-in periods for institutional buyers will expire on 16th June, 2016 and 16th September, 2016. On the first day of trading, 50% of the institutional investors holding (12.5 million shares) and all of mutual funds and general public's holding (25 million) will be eligible for trading. After 16th March, 6.25 million shares will be added to the current effective free float of 37.5 million.

### Investment Synopsis

- ACME is one of the largest pharmaceutical producers of the country. In terms of sales, they have been consistently among the top 10 pharmaceutical producers of the nation. Pharmaceutical industry itself is among the fastest growing ones of the nation, with a CAGR of 12.3% over the last five years. In the same time period, ACME has grown faster than the industry with 15.6% CAGR. The industry is projected to hold this double digit growth rate and reach USD 2 billion within 2018 (Source: IMS projection). ACME can also be expected to sustain their strong revenue growth pattern for the next couple of years.
- ACME has considerable presence in animal health and herbal medicine sectors. These two sectors have significant growth potential yet they are relatively less populated with the local established competitors. ACME has also declared plans to construct an additional plant for their herbal business with IPO proceeds, which indicates their willingness to pursue this potent market segment.
- ACME's net profit figures have also displayed strong growth patterns. CAGR of last five years' profit figures is 32.2%. But the strong growth has not been sustained in the FY '15 financials. The net profit has only increased by 3.2%. The main reason behind the lagging growth is high depreciation expense and high interest expense. The company has spent BDT 5316.36 million and BDT 2740.80 million during FY14 and FY15 respectively for addition of fixed assets. These investments have caused the company to take on additional loans. Also, the increased depreciation owing to the increased asset size has squeezed the profit margins. As the production capacities created by these investments become utilized, additional revenues will counterbalance these costs and overall business growth can be expected.
- The company is actively pursuing expansion. During FY14, the company has successfully completed and launched separate Cephalosporin facility. From October 2014, a Blow Fill Seal facility for production of injectable parentals was scheduled to start operation. The company has also declared its intention to build three new production facilities costing BDT 4244.5 million with the IPO proceeds. ACME has already BDT 95.2 million advance against land located in surrounding area of the existing factory premises at Dhamrai near Dhaka and Sales Center at Brahmanbaria, The land is to be registered within September 2016. The land acquisition points to further expansion plans and the forward-thinking outlook of the company.
- According to FY 14 reports, spare capacity is available in most of the product categories. The product categories where the capacity utilization figures are highest are mostly low volume products. So, ACME is well positioned to take capitalize on future growth opportunities.
- ACME will enjoy tax breaks by enlisting in the capital market. Their effective tax rate is currently hovering around 35%, which will come down to 25% after the listing. If they sustain last FY 15's growth patterns and margins, the tax rate deduction alone could drive their bottom line by 25%.
- ACME is already enjoying tax holiday through its amalgamated ASPL facilities, which should continue till late 2016. After construction of the three proposed plants, those would also be entitled to receive tax holiday.
- ACME's gross margin has ranged from 34.3% to 39.0% over the last five years. This is quite low compared to other large pharma producers like Renata, Beximco Pharma or, Square Pharma. This shows an opportunity to rise to the industry standards.

### Risk Factors

- The company is quite levered. It is operating with a debt-to-equity ratio of 82.9% as on June 2015 and 83.3% as on June 2014 while taking revaluation surplus into account. But without revaluation surplus, the company has been operating as a highly levered company and debt-to-equity ratio would stand 155.8% in FY15 and 169.3% in FY14 respectively. With three more plants being constructed and increasing volumes, need for short term financing is only going to increase. Long cash conversion cycle would also create additional pressure to get even more leverage through short term financing. On the other hand, increasing utilization of the additional capacity created by the capacity expansion could help ease the pressure for financing.
- As gross margin is quite low, COGS is obviously higher than peer companies. For example, Renata, who has significant presence in both human and animal medicine segments like ACME, has significantly higher margins. This is indicative of a high sourcing cost and depreciation expense, which needs to be remedied for the company to fully realize its potential.

**Table-3: Historical Production Capacity (in thousands)**

Products/Categories		FY13			FY14			FY15		
	Unit	Installed Capacity	Utilized Capacity	Capacity Utilization (%)	Installed Capacity	Utilized Capacity	Capacity Utilization (%)	Installed Capacity	Utilized Capacity	Capacity Utilization (%)
<b>HUMAN</b>										
Tablet	Pcs	1,411,000	1,695,264	120.1%	3,086,237	1,953,640	63.3%	3,368,590	2,199,808	65.3%
Capsule	Pcs	224,100	271,001	120.9%	630,486	319,640	50.7%	630,486	348,051	55.2%
Liquid	Bottle	62,250	39,622	63.6%	62,250	46,571	74.8%	87,234	51,959	59.6%
Dry Syrup	Bottle	7,470	5,562	74.5%	18,409	6,712	36.5%	18,409	8,574	46.6%
Ointment	Tube	3,984	1,356	34.0%	3,984	1,640	41.2%	6,158	1,894	30.8%
Cream	Tube	17,928	3,225	18.0%	17,928	4,238	23.6%	17,928	4,920	27.4%
Suppository	Pcs	14,940	12,973	86.8%	14,940	15,297	102.4%	32,660	21,770	66.7%
Inhaler (DPI)	Pcs	22,410	19,445	86.8%	22,410	24,530	109.5%	66,690	27,738	41.6%
Inhaler (MDI)	Canister	498	341	68.5%	498	410	82.3%	1,457	487	33.4%
Eye/Ear/Nasal Drop	Phials	6,640	6,265	94.4%	6,640	7,607	114.6%	10,136	9,091	89.7%
Injection (Amps)	Pcs	24,900	18,176	73.0%	24,900	24,244	97.4%	35,380	30,518	86.3%
Injection (Vial)	Pcs	13,280	10,676	80.4%	18,424	14,374	78.0%	15,350	9,176	59.8%
Infusion	Pcs	-	-	-	-	-	-	4,680	2,001	42.8%
Sachet	Pcs	-	-	-	-	-	-	28,201	8,223	29.2%
<b>HERBAL</b>										
Capsule	Pcs	32,370	4,629	14.3%	32,370	8,145	25.2%	32,370	9,235	28.5%
Liquid	Pcs	7,470	4,410	59.0%	7,470	5,189	69.5%	8,708	6,460	74.2%
Tablet	Pcs	29,880	8,343	27.9%	29,880	12,354	41.3%	29,880	11,126	37.2%
<b>VETERINARY</b>										
Bolus	Pcs	174,300	86,434	49.6%	174,300	98,758	56.7%	217,445	118,482	54.5%
Liquid	Pcs	4,980	2,681	53.8%	4,980	3,025	60.7%	5,212	3,748	71.9%
Premix	Pcs	14,940	12,045	80.6%	14,940	13,255	88.7%	27,587	14,448	52.4%
Water Soluble Powder	Pcs	5,976	2,722	45.5%	5,976	3,228	54.0%	8,579	3,836	44.7%
Injection	Vial	12,700	6,438	50.7%	12,700	8996	70.8%	12,487	11,305	90.5%

Source: IPO Prospectus

**Table-4: Projected Production Capacity (in thousands)**

Products/Categories		FY16			FY17			FY18		
	Unit	Installed Capacity	Utilized Capacity	Capacity Utilization (%)	Installed Capacity	Utilized Capacity	Capacity Utilization (%)	Installed Capacity	Utilized Capacity	Capacity Utilization (%)
<b>HUMAN</b>										
Tablet	Pcs	3,537,020	2,507,781	70.9%	3,537,020	2,833,793	80.1%	4,072,081	3,258,862	80.0%
Capsule	Pcs	630,486	382,856	60.7%	662,010	424,970	64.2%	708,380	480,216	67.8%
Liquid	Bottle	87,234	56,635	64.9%	183,138	63,431	34.6%	183,138	73,580	40.2%
Dry Syrup	Bottle	18,409	10,117	55.0%	18,409	12,343	67.0%	18,409	14,565	79.1%
Ointment	Tube	6,158	2,197	35.7%	6,158	2,505	40.7%	7,394	2,931	39.6%
Cream	Tube	17,928	5,756	32.1%	28,728	6,792	23.6%	30,488	7,743	25.4%
Suppository	Pcs	32,660	21,267	65.1%	32,660	24,882	76.2%	32,660	28,614	87.6%
Inhaler (DPI)	Pcs	66,690	31,621	47.4%	66,690	35,416	53.1%	66,690	40,020	60.0%
Inhaler (MDI)	Canister	1457	584	40.1%	1457	707	48.5%	2,371	834	35.2%
Eye/Ear/Nasal Drop	Phials	19,736	10,818	54.8%	19,736	12,765	64.7%	21,598	14,807	68.6%
Injection (Amps)	Pcs	35,380	32,654	92.3%	35,380	34,246	96.8%	38,380	37,596	98.0%
Injection (Vial)	Pcs	15,350	9,727	63.4%	15,350	10,700	69.7%	18,150	11,877	65.4%
Infusion	Pcs	4680	2455	52.5%	4680	2801	59.9%	4,680	3,468	74.1%
Sachet	Pcs	28201	8865	31.4%	28201	10045	35.6%	28,201	12,402	44.0%
<b>HERBAL</b>										
Capsule	Pcs	32,370	9,789	30.2%	32,370	10,181	31.5%	32,370	10,690	33.0%
Liquid	Pcs	8,708	7,429	85.3%	8,708	8,566	98.4%	8,708	9,519	109.3%
Tablet	Pcs	29,880	11,571	38.7%	29,880	12,150	40.7%	29,880	13,122	43.9%
<b>VETERINARY</b>										
Bolus	Pcs	239,190	142,178	59.4%	239,190	172,035	71.9%	239,190	206,442	86.3%
Liquid	Pcs	5,873	4,498	76.6%	5,873	5,578	95.0%	5,873	6,305	107.4%
Premix	Pcs	27,587	15,315	55.5%	27,587	16,540	60.0%	27,587	17,698	64.2%
Water Soluble Powder	Pcs	9,180	4,833	52.6%	9,180	5,800	63.2%	9,180	7,134	77.7%
Injection	Vial	12,487	11,079	88.7%	12,487	11411	91.4%	12,487	11,982	96.0%

Source: IPO Prospectus

**Table-5: Latest Quarter Financial Summary (BDT mn)**

Details	9MFY15	9MFY16	Growth
Net Turnover	8,157.94	9,057.09	11.0%
Gross Profit	3,186.69	3,588.58	12.6%
Operating Profit	1,792.05	2,144.25	19.7%
Net Profit before Tax	1,017.06	1,256.72	23.6%
Net Profit after Tax	656.08	724.14	10.4%
NAV Per Share (BDT)	3.10	3.42	
Earning Per Share (BDT)	53.75	62.34	
<b>Margins</b>			
Gross Margin	39.1%	39.6%	
Operating Margin	22.0%	23.7%	
Pretax Margin	12.5%	13.9%	
Net Profit Margin	8.0%	8.0%	

Source: Quarterly Report, LBSL Research

### Latest Quarterly Review

In 9MFY16, ACME has shown consistency and increased efficiency. In the nine six months of FY16, ACME has shown double digit topline and bottom-line growths. The operating profit increased by 19.7% through lower operating expense. Specially the selling and distribution expense has been almost flat despite the 11.0% revenue growth. Higher taxation, mainly due to completion of tax holiday duration of amalgamated units, has somewhat depressed the bottom-line growth. Once the company is listed, a decreased tax rate should mean that the company can fully display the benefits of its operational growth.

During Q3FY16 ( January 2016- March 2016), ACME has reported a 19.7% growth in revenues and 3.3% growth in profits, again largely due to a rise in effective tax rate.

**Table-6: Income Statement (in BDT mn)**

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Revenue</b>	<b>6,996.75</b>	<b>8,838.09</b>	<b>8,973.32</b>	<b>10,217.93</b>	<b>11,496.41</b>
Cost of Goods Sold	4,540.79	5,697.48	5,721.02	6,237.79	7,195.00
<b>Gross Profit/ (Loss)</b>	<b>2,455.96</b>	<b>3,140.61</b>	<b>3,252.30</b>	<b>3,980.14</b>	<b>4,301.42</b>
Add: Other Income	12.10	17.99	20.15	108.07	41.13
	<b>2,468.06</b>	<b>3,158.61</b>	<b>3,272.45</b>	<b>4,088.21</b>	<b>4,342.54</b>
Less: Selling, Marketing and Distribution Expenses	1,090.28	1,264.12	1,330.35	1,499.83	1,555.76
	<b>1,377.77</b>	<b>1,894.49</b>	<b>1,942.10</b>	<b>2,588.38</b>	<b>2,786.79</b>
Less: Administrative Expense	454.68	525.13	552.07	546.38	387.36
<b>Operating Profit</b>	<b>923.10</b>	<b>1,369.36</b>	<b>1,390.03</b>	<b>2,042.00</b>	<b>2,399.43</b>
Less: Financial Expenses	309.77	526.94	538.79	776.91	982.53
<b>Profit before WPPF</b>	<b>613.33</b>	<b>842.42</b>	<b>851.24</b>	<b>1,265.09</b>	<b>1,416.90</b>
Less: Contribution to WPPF	29.19	40.12	40.54	60.24	67.47
<b>Net Profit before Tax</b>	<b>584.14</b>	<b>802.30</b>	<b>810.71</b>	<b>1,204.84</b>	<b>1,349.43</b>
Income Tax					
Less: Current Tax Expense	218.91	305.94	304.02	426.64	310.65
Less: Deferred Tax (Income)/Expense	21.08	20.24	1.00	(115.68)	116.87
	<b>239.99</b>	<b>326.18</b>	<b>305.01</b>	<b>310.95</b>	<b>427.51</b>
<b>Net Profit after Tax</b>	<b>344.15</b>	<b>476.13</b>	<b>505.70</b>	<b>893.89</b>	<b>921.92</b>
EPS (Based on Pre-IPO number of Shares)	2.13	2.95	3.13	5.53	5.70
EPS (Based on Post-IPO number of Shares)	<b>1.63</b>	<b>2.25</b>	<b>2.39</b>	<b>4.22</b>	<b>4.36</b>

Source: IPO Prospectus

**Table-7: Balance Sheet (in BDT mn)**

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Non-Current Assets</b>					
Property, Plant and Equipment	5,762.75	6,615.63	8,306.21	15,511.90	16,027.23
Intangible Assets	0.53	0.41	0.34	0.29	0.25
Investment in Shares	351.47	351.47	351.47	6.14	7.12
Preliminary Expenses	0.01	-	-	-	-
Investment Property	25.96	26.19	26.19	26.19	26.19
-	<b>6,140.71</b>	<b>6,993.69</b>	<b>8,684.20</b>	<b>15,544.51</b>	<b>16,060.79</b>
<b>Current Assets</b>					
Inventories	1,271.61	1,781.06	1,886.27	2,223.00	2,484.87
Trade Receivables	228.02	393.37	471.02	644.87	729.66
Other Receivables	14.34	56.10	76.07	74.53	40.72
Advance Deposits and Prepayments	1,202.55	2,126.78	2,347.69	1,097.41	986.39
Advance Income Tax	666.30	905.91	1,273.28	1,334.15	1,820.55
Material in Transit	173.39	309.97	162.47	294.48	285.53
Term Deposit	-	-	1,220.00	553.20	419.00
Cash and Cash Equivalents	112.88	165.48	452.65	413.43	432.27
	<b>3,669.10</b>	<b>5,738.67</b>	<b>7,889.44</b>	<b>6,635.06</b>	<b>7,198.98</b>
<b>Total Asset</b>	<b>9,809.81</b>	<b>12,732.36</b>	<b>16,573.64</b>	<b>22,179.57</b>	<b>23,259.77</b>
<b>Equity and Liabilities</b>					
<b>Shareholders' Equity:</b>					
Share Capital	1,160.00	1,160.00	1,556.31	1,616.02	1,616.02
Share Premium	-	-	1,605.07	1,605.07	1,605.07
Revaluation Surplus	4,321.83	4,559.56	4,488.70	5,429.80	5,320.07
Capital Reserve	40.17	40.17	40.17	-	-
Share Money Deposit	-	-	500.00	-	-
Gain/ (Loss) on Marketable Securities	-	-	-	0.84	1.82
Tax Holiday Reserve	-	-	-	91.01	139.86
Retained Earnings	301.84	849.73	1,327.21	1,949.43	2,689.80
	<b>5,823.83</b>	<b>6,609.45</b>	<b>9,517.45</b>	<b>10,692.16</b>	<b>11,372.63</b>
<b>Non-Current Liabilities</b>					
Long Term Loan Net of Current Maturity	387.86	507.92	1,003.60	3,018.09	4,721.11
Provision for Gratuity	-	-	-	30.47	57.78
Deferred Tax Liability	103.57	123.81	124.81	9.12	125.99
	<b>491.43</b>	<b>631.73</b>	<b>1,128.41</b>	<b>3,057.68</b>	<b>4,904.88</b>
<b>Current Liabilities</b>					
Loans And Overdrafts	2,288.39	3,578.57	3,614.17	4,874.13	3,099.85
Long Term Loan-Current Maturity	212.52	269.28	384.24	1,014.86	1,609.08
UNDP Grant	29.54	-	-	-	-
Trade Payable	283.31	615.28	506.96	528.30	432.25
Provision for Income Tax	558.85	864.79	1,168.81	1,245.66	1,556.31
Liability for Expense and Others	121.94	163.26	154.52	160.05	133.08
Dividend Payable	-	-	99.08	606.72	151.71
	<b>3,494.55</b>	<b>5,491.18</b>	<b>5,927.78</b>	<b>8,429.73</b>	<b>6,982.26</b>
<b>Total Liabilities</b>	<b>3,985.98</b>	<b>6,122.91</b>	<b>7,056.20</b>	<b>11,487.41</b>	<b>11,887.14</b>
<b>Total Equity and Liability</b>	<b>9,809.81</b>	<b>12,732.36</b>	<b>16,573.64</b>	<b>22,179.57</b>	<b>23,259.77</b>

Source: IPO Prospectus

**Table-8: Important Ratios (in BDT mn)**

Table-8: Important Ratios (in BDT mn)						
<b>Profitability</b>						
Return on Assets	4.9%	4.2%	3.5%	4.6%	4.1%	
Return on Equity	9.8%	7.7%	6.3%	8.8%	8.4%	
<b>Margin Analysis</b>						
Gross Margin	35.1%	24.7%	23.1%	24.7%	24.7%	
Operating Margin	13.0%	15.3%	15.3%	18.9%	20.5%	
Net Profit Margin	4.9%	5.4%	5.6%	8.7%	8.0%	
<b>Growth</b>						
Revenue Growth	25.9%	26.3%	1.5%	13.9%	12.5%	
Gross Profit Growth	28.7%	27.9%	3.6%	22.4%	8.1%	
Net Profit Growth	51.1%	38.3%	6.2%	76.8%	3.1%	
<b>Short Term Liquidity</b>						
Current Ratio	1.05	1.05	1.33	0.79	1.03	
Quick Ratio	0.69	0.72	1.01	0.52	0.68	
<b>Long Term Solvency</b>						
Total Debt/Equity	49.6%	65.9%	52.6%	83.3%	82.9%	
LT Debt/Equity	6.7%	7.7%	10.5%	28.2%	41.5%	

Source: IPO Prospectus, LBSL Research

**Table-9: Peer Comparison**

Particulars	Square	Beximco	Renata	ACME
Sales	24,193.36	11,206.89	11,432.55	11496.41
NPAT	4,031.81	1,528.30	1,687.49	921.92
Gross Profit Margin	43.9%	45.5%	50.0%	37.4%
Net Profit Margin	19.3%	13.6%	15.4%	8.0%
ROAA	15.7%	5.4%	12.1%	4.1%
ROAE	17.9%	7.5%	23.2%	8.4%
Revenue Growth	16.6%	6.8%	25.2%	12.5%
Earnings Growth	20.7%	8.8%	20.8%	3.1%
FY '15 EPS (BDT)	7.27	3.64	31.87	4.36
Market Cap	162,943.16	32,251.39	58,841.95	18,028.46*
Current P/E (Trailing 12 Months)	23.85	16.50	27.37	18.21*
EV/EBITDA	17.91	10.47	19.04	8.81*
Price/Sales	6.74	2.88	5.15	1.57*

\*Cut-off considered for calculation

Source: IPO Prospectus, Annual Report, Quarterly Reports, LBSL Research

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### Recommendation Interpretation

Overweight	Stock is expected to give positive return over 20% in one year horizon.
Add	Stock expected to give a return of 0-10%+ in one year horizon
Neutral	Current price of the stock reasonably reflects fundamental value.
Reduce	Stock is expected to fall up to 10% in one year horizon.
Underweight	Stock is expected to fall by more than 10% in one year horizon.

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### LBSL Capital Market Research Department

Md. Mahfuzur Rahman

Research In-Charge

mrahman@lbsbd.com

Analyst	Designation	E-mail
Md. Rezwanaur Rahman	Senior Research Associate	rezwanur.rahman@lbsbd.com
Tanay Kumar Roy	Senior Research Associate	tanay.kumar@lbsbd.com
Salma Yeasmin Xinat	Senior Research Associate	salma@lbsbd.com
Quazi Naureen Ahmed	Research Associate	naureen.quazi@lbsbd.com
Mahibul Karim Khan	Research Associate	mahibul.karim@lbsbd.com
Ahmed Irtiza	Research Associate	ahmed.irtiza@lbsbd.com
Debshish Sutradhar	Trainee Research Associate	debshish.sutradhar@lbsbd.com

### Institutional & Foreign Trade Department

Rehan Muhammad

Business Development Head

rehan@lbsbd.com/rmuhammad1@bloomberg .net

### LankaBangla Securities Limited

Research & Analysis Department  
Corporate Office  
A.A. Bhaban (Level-5)  
23 Motijheel C/A  
Dhaka-1000, Bangladesh  
Phone: +880-2-9513794 (Ext-118)  
Fax: +880-2-9563902

Website: [www.lbsbd.com](http://www.lbsbd.com)